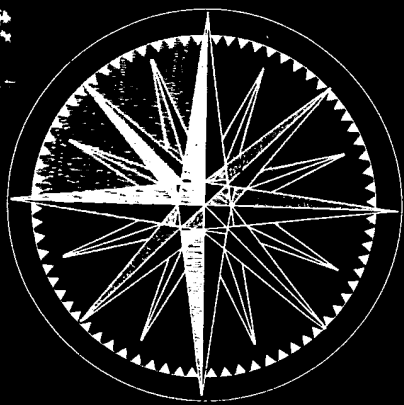


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26 July 1963

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SPECIAL REPORT

THE CURRENT SITUATION IN ITALY

APPROVED FOR RELEASE
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26 July 1963

THE CURRENT SITUATION IN ITALY

Summary

The deadlock in Italian politics, resulting from the disappearance of the center-left Fanfani coalition after the April elections, has been eased but by no means resolved by the confirmation of Premier Leone's caretaker government. Italy's long-run stability still depends on revival of the center-left formula, i.e., an alliance--primarily between the Christian Democrats and the Socialists--to implement a program of modern social and economic legislation and to isolate the Communist Party politically. In the present parliament no other kind of government seems possible except a caretaker cabinet or a coalition of center elements too diverse to allow it to pursue any positive policy or to hold prospects of long tenure.

Majority elements in the two main parties concerned apparently favor a new attempt at a center-left government after the October national congress of the Socialist Party, but there are serious obstacles in the way. Right-wing Christian Democrats and left-wing Socialists oppose the effort and have used the April electoral gains of the conservative Liberal party and the Communists to spread suspicion of the center-left formula within their respective parties. Such suspicions caused the Socialist Party in mid-June to repudiate the tentative agreement which Nenni had already reached on its behalf with the Christian Democrats; further efforts were then suspended until after the Socialist party congress in late October had had a chance to clarify the party's position. Since strong personal rivalries are also involved within both the Socialist and the Christian Democratic parties, it is likely that negotiations for a center-left coalition will take considerably longer than anticipated; the Leone government may therefore be prolonged from week to week. Meanwhile, the Communist Party is making special efforts to increase friction between the Socialists and the Christian Democrats, and is trying particularly to exploit Italy's growing inflation for political purposes.

Annex: The State of the Italian Economy

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BACKGROUND

Italy's current political paralysis springs from difficulties persistent since the war--including the factor of a Communist party which has steadily drawn the "protest" vote of 20 to 25 percent of the electorate. Italy's rapid industrial modernization has outstripped comparable modernization of its social structure and governmental apparatus. Landholding, education, administration, and the excessive share of taxation borne by lower income groups all need reform by West European standards. The crux of the dilemma is that elements in several center parties long seeking such reforms have been inhibited from a showdown with conservative elements by the delicacy of parliamentary arithmetic: where extremist parties hold a quarter or more of the seats, a governmental majority requires near unanimity of the center.

The Christian Democratic Party has dominated all governments since the war, but since 1953 has been forced to find allies for a parliamentary majority. By mid-1957 coalition with the Republicans, Social Democrats and the conservative Liberal Party had proven too disparate for stability. A mid-1960 experiment in minority CD rule with neo-Fascist parliamentary support caused widespread rioting. Under increasing pressure to distribute Italy's new prosperity more widely and more equitably, the CD leadership began cautious steps toward the remaining alternative, the "opening to the left"--a coalition with Social Democrats and Republicans, relying on a Socialist commitment of benevolent abstention on key parliamentary votes. This not only afforded the necessary reform-minded parliamentary backing, but spurred the PSI's disengagement from the Communists.

The center-left "experiment" began with Fanfani's February 1962 coalition, formed after a CD national congress had endorsed the concept. The results were not spectacular, but the Fanfani government introduced the style and tone of a reform movement, and promised more concrete steps as the experiment became established. The PSI meanwhile continued its divergence from the old ties with communism, particularly on foreign policy. Traditionally opposed to military credits, the PSI even abstained on an increase in the defense budget, and argued in debate that the increase was necessary to maintain the balance between East and West. Nenni, who has often argued that Italy must remain in NATO, publicly criticized Togliatti for failure to understand that the MLF would be a safeguard against nuclear proliferation.

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Parliamentary confirmation of Premier Leone and his all-Christian Democratic (CD) government has momentarily eased the deadlock in Italian politics. Italy again has a national administration, but one limited strictly to the conduct of essential parliamentary and executive affairs. This will remain the case at least until the Socialist Party (PSI) has decided at its national congress in October whether to resume negotiations with the Christian Democrats in the effort to form a new and durable center-left government. Leone's confirmation on 12 July was possible only because the Socialists, Social Democrats, and Republicans abstained in order to buy time for such an effort.

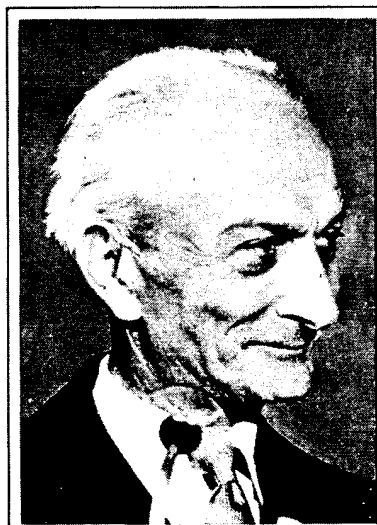
The next few months will be a period of confusion and uncertainty as the political community seeks to repair the injuries done and the damages suffered during the recent prolonged crisis. Both the Christian Democratic and the Socialist parties will be involved in much soul-searching and reassessment as each gropes toward a position that will find support among the greatest number of its members. Intraparty conflict may well be as intense as the maneuvering between parties, and the positions of some party leaders may be considerably damaged. The lesser parties will not be untouched by this turmoil, and the Communist Party (PCI), heartened by the disarray of the CD and PSI, is poised to exploit not only the

delicate political situation, but also the country's somewhat brittle economic position. (See Annex for a discussion of the present economic situation.)

To a considerable degree, Italy's long-run stability lies in the balance. If a CD-PSI rapprochement fails--either because Socialist leader Nenni is unable to whip enough elements of his party into line, or because of CD hesitancy--the reorientation of Italian politics toward modern and progressive goals would be dramatically slowed or halted, and the best chance for the establishment of political stability and the isolation of the Communists forfeit.

The Post-Electoral Situation

The 28-29 April national elections, in which the



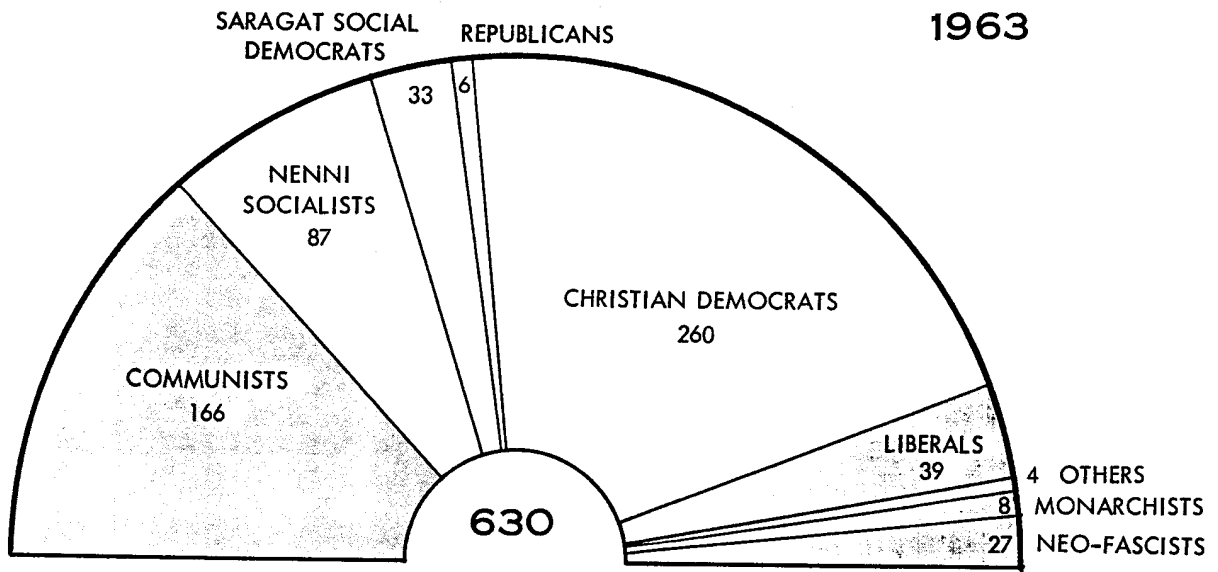
ANTONIO SEGNI
President of Italy

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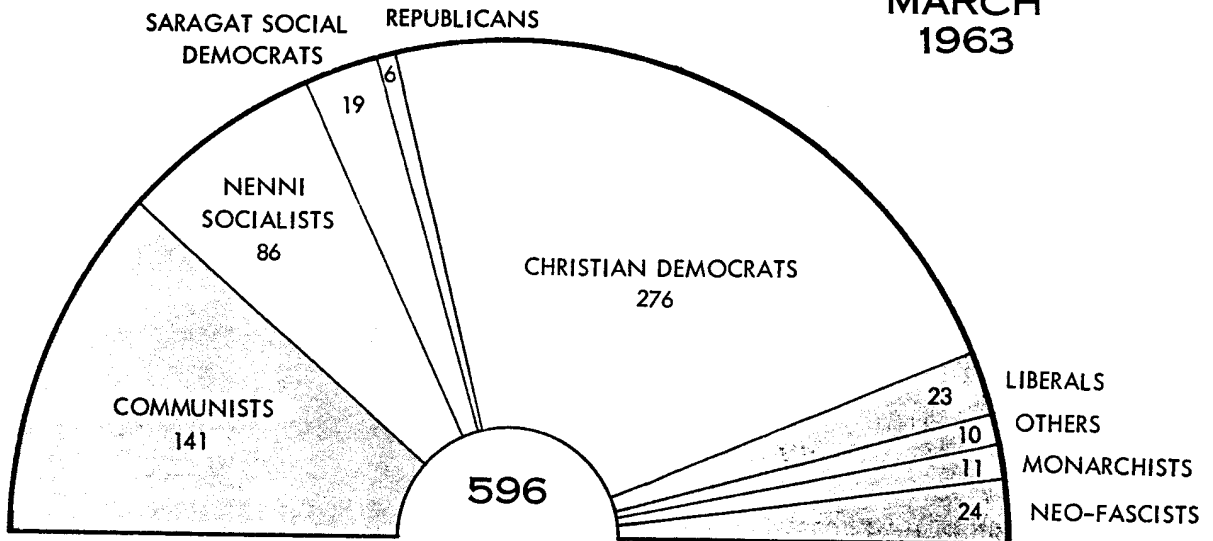
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ITALIAN CHAMBER OF DEPUTIES

JULY 1963



MARCH 1963



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Communists, Liberals, and Social Democrats gained at the expense of the PSI and the CD deadlocked Italian politics, not because the returns produced any important shift in the balance of power, but for essentially psychological reasons. Most of the voters had probably not yet felt the impact of the year-old experiment under Premier Fanfani and, in fact, parliamentary arithmetic remained basically unchanged. However, powerful opponents of the center-left in both the CD and PSI interpreted their parties' losses as a repudiation of the "experiment," as the center-left coalition was called, and they used the results to create a climate of distrust and suspicion between the two parties. In this atmosphere the effort to put together a coalition government came to grief.

Immediately after the elections, Italian political circles generally assumed that the experiment in center-left government would continue, if only because no durable alternative seemed feasible. A center-right coalition, for example, could not attain a majority without including the votes of the neo-Fascists, and such support would be deeply repugnant to important elements in the Christian Democratic Party. The old quadripartite formula of a coalition among the CD, the conservative Liberal Party, Social Democrats, and the small Republican Party would arouse somewhat fewer antagonisms, but most deputies



AMINTORE FANFANI
Former Premier

recognized that "quadripartism," which was abandoned as unworkable in 1957, would itself be only a stopgap measure.

First Fanfani tried to perpetuate his government. Then CD secretary Moro tried to form a new center-left government and got as far as a tentative agreement with Nenni. On 17 June, however, the PSI central committee suddenly repudiated this agreement, and the crisis reached its low point. We cannot reconstruct exactly what happened in the various discussions involved, but a number of the factors responsible for the outcome can be identified with some confidence.

Personal factors certainly played an important role. Fanfani, never a popular figure within his own Christian Democratic Party because of his authoritarian approach and his

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RESULTS OF ITALIAN PARLIAMENTARY ELECTIONS

CHAMBER OF DEPUTIES	1963			1958		
	Votes	%	Seats	Votes	%	Seats
Christian Democrats	11,763,418	38.3	260	12,520,556	42.3	273
Communists	7,763,854	25.3	166	6,704,763	22.7	140
Socialists	4,251,966	13.8	87	4,206,777	14.2	84
Liberals	2,142,053	7.0	39	1,047,073	3.5	17
Social Democrats	1,874,379	6.1	33	1,345,334	4.6	22
Neo-Fascists	1,569,202	5.1	27	1,407,550	4.7	24
Monarchists	536,652	1.7	8	1,436,654	4.8	25
Republicans	420,746	1.4	6	405,767	1.4	6
South Tiroleans (SVP)	135,444	0.4	3	133,495	0.5	3
Others	272,555	0.9	1	379,502	1.3	2
TOTAL	30,730,269	100.0	630	29,587,471	100.0	596

SENATE

Christian Democrats	10,208,524	37.2	133	10,782,262	41.2	122
Communists	6,993,604	25.5	85	5,701,019	21.8	60
Socialists	3,856,088	14.0	44	3,683,806	14.1	35
Liberals	2,059,452	7.5	19	1,024,309	3.9	4
Social Democrats	1,739,880	6.3	14	1,135,151	4.4	5
Neo-Fascists	1,694,832	6.2	15	1,119,873	4.3	8
Monarchists	428,167	1.6	2	1,350,201	5.2	7
Republicans	223,421	0.8	-	369,192	1.4	-
South Tiroleans			2	120,250	0.5	2
Others	253,028	0.9	1	760,186	3.2	3
TOTAL	27,456,996	100.0	315	26,046,249	100.0	246

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reputation for sharp practice in the political arena, is particularly disliked by the CD right wing for his overly aggressive sponsorship of the center-left experiment. Others, elsewhere in the party, have been ambitious to succeed him as premier of a new center-left government. The Socialists, on the other hand, tended to see Fanfani's leadership of the coalition as their best insurance against a watering down of its program, and they regarded with deep suspicion President Segni's acceptance of Fanfani's pro forma resignation and Moro's subsequent designation to form a cabinet.

Personal ambition may also have played a part in the Socialist Party's decision to break off negotiations with the Christian Democrats. Nenni's leadership was challenged by Riccardo



PIETRO NENNI
Socialist Party
Secretary General

Lombardi, the party's next most important figure, who has something of an independent following of his own within the autonomist wing. With his 72-year-old chief in failing health and spirits and his own succession prospects threatened by Nenni's endorsement of Francesco De Martino as deputy chief, Lombardi took advantage of party impatience with the protracted negotiations to line up the votes necessary to repudiate the Nenni-Moro agreement.

Another factor is the known opposition to the center-left experiment of President Segni, a conservative Christian Democrat. Although Segni's formal powers are limited, his opportunities for influencing the cabinet-making process are considerable, and his authority to call new elections is a potent weapon.

The Communists' electoral gains last April convinced Lombardi that the Socialists had lost working-class votes by moving too far to the right, "too far and too fast," and he probably viewed the legislative program Nenni worked out with Moro in this perspective. The legislative program itself, however, was probably not a major factor in the break-off of negotiations with the CD. Many Socialists already harbored the belief that the CD had shown bad faith in failing to implement its earlier promises to set up regional administrations throughout Italy.

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The Leone Government

After Moro's effort to form a government aborted, all parties concluded that a cooling-off period was necessary. It was in this context that Leone's minority government was established. Leone, a mild man, had long been a skillful president of Italy's lower house, where he managed to keep on friendly terms with leaders of all parties. This conciliatory tendency shows some signs of affecting his discharge of the very different duties of the premiership.

Although Leone's announced intention is to carry on only until after the PSI national congress in late October, the life of his caretaker government may in fact be considerably prolonged by the magnitude of the problems which must be ironed out between the CD and PSI before a center-left government could be confirmed.

There are also reports that Segni may try to promote the idea of turning the Leone government into a centrist coalition of Christian Democrats, Liberals, Republicans and Social Democrats. This would require in particular the support of Social Democratic leader Saragat, who has sharply opposed "quadripartism" and long advocated the center-left formula. However, he has implied that he might reluctantly participate in a "quadripartite solution" if all chances of forming a center-left government have been exhausted.

There is also the possibility of new elections--an expedient which all the parties, with the possible exception of the Communists, currently regard with varying degrees of distaste. On this matter, as on other important aspects of the situation, the attitude of the three big parties (the Christian Democrats, the Socialists, and the Communists) merits special examination.

The Christian Democratic Party

No clear picture has yet emerged of the current disposition of the CD toward possible new relationships with the Socialists or with the right. In making even tentative judgments on this subject it is well to remember that the CD is in fact not one party, but several. At various times in



GIOVANNI LEONE
Prime Minister

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the party's life different factions have seemed to play the preponderant role in setting basic policy. The conservatives emerged in an aggressive mood from the national elections and found encouragement in the June elections for the Sicilian Parliament. These showed an upturn in CD strength following a campaign in which the "center-left experiment" was soft-peddled and the voters were told they had to choose between communism and Christian Democracy -- a theme long favored by the party's right wing. This group would anticipate CD gains in new national elections in the near future (arguing that a strong anti-Communist campaign would win back the voters lost to the Liberals in the April election) but its members presumably recognize that the Communists would also gain votes,



ALDO MORO
Christian Democratic
Party Secretary

and reportedly they are not pressing for elections.



GIUSEPPE SARAGAT
Leader of Social
Democratic Party

Although the party's conservatives held the psychological advantage immediately following the elections, the followers of Fanfani have started a counterattack. The main body of the party probably remains convinced that a reformist program is necessary for the party and that the center-left formula is desirable. Important CD leaders, including Moro, are deeply and publicly committed to this course. It is worth remembering that in mid-June Moro put together a center-left program which he evidently considered acceptable to his own party as well as the PSI. Moreover, the momentary political eclipse of the

unpopular Fanfani may have removed what for some party members is the most objectionable aspect of "the experiment." At the same time, Moro's failure in the June negotiations has weakened his position in the party and left him more vulnerable to the maneuvers of potential rivals for his party job. Furthermore, if the PSI congress were to fix unexpectedly stiff terms for support, or demand immediate participation in a coalition cabinet, or if controversy within the party became embittered, most CD leaders would probably feel compelled to consult a CD national congress, not expected until next March.

For important elements of the party, much will depend on the attitude toward Italian political affairs adopted by the new Pope, who had not yet been selected when the PSI broke off negotiations in mid-June. As Cardinal Montini, Paul VI had the reputation of a liberal, but he has not yet indicated whether as Pope he intends to continue John XXIII's policy of noninvolvement in Italian politics or revert to Pius XII's policy of direct intervention. The latter frequently and openly involved the church in political action against the "opening to the left" and the Communists.

The Socialist Party

The Socialists are divided among the autonomist followers of Nenni, including the Lom-

bardi group, and the pro-Communists ("carristi") who receive support and guidance from the PCI. Nenni's long effort to draw a majority of the party away from close political collaboration with the PCI and toward a position in support of the center-left formula has involved major modification of the Socialists' traditional neutralist foreign policy theses. (Some of the foreign policy issues involved are noted in the background summary facing Page 2.) This change in the basic orientation of the party has not been accomplished without dissension and some bitterness. Moreover, it is impossible to tell whether or not Socialist Party members are deeply persuaded by Nenni's foreign policy positions, or whether they simply go along out of personal loyalty to Nenni, or



RICCARDO LOMBARDI
Socialist Leader

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indeed are indifferent to foreign policy matters. At best, it can be said that--the carristi apart--the party has probably moved far enough away from the Communists to make returning to the old positions awkward if not painful.

Although there now is much pulling and hauling within the party as a result of the recent negotiations with the CD, there still seems to be majority support for the autonomists and the basic policy of the center-left experiment. However, sharp differences arise on timing and terms. Lombardi, in engineering the repudiation of Nenni's mid-June agreement with the Christian Democrats, apparently was fearful that the CD could not deliver on its promises and that in these circumstances the risk of damaging his party by too close an association with the CD--and the stigma of corruption that had become attached to it during its long years of office--was not worth it. He told a US observer privately that the PSI had lost votes to the Communists in the 9 June election in Sicily because of its ties with the Christian Democrats.

The dissension in the party has abated somewhat since Lombardi's 17 June attack on Nenni's leadership. The central committee rejected Nenni's resignation as party secretary, and the party maintained discipline, abstaining in the vote of confidence for the Leone government. Lombardi reportedly does not want to take the responsibility for causing a

split in the autonomous wing of the party. Nenni still seems resolved to reach agreement with the Christian Democrats and determined to rally as much support within his party to this end as possible. In the present state of his health, however, there is some question that he can muster the personal resources necessary to go through with his plans.

The decision regarding the party's policy on negotiations with the CD will be made at its national congress scheduled for late October. Each of the contending factions can be expected to make strenuous efforts to influence the selection of delegates by local party units. The congress will also elect central committeemen and other party officers for the next two-year period, and many of the delegates will in fact be more concerned with such immediate and "practical" matters than with long-range questions of national policy. Moreover, all concerned will be well aware that there is probably no tolerable alternative to continuation of the center-left experiment, and that the party is in no condition to undergo the test of another national election in the near future.

Although the course of the PSI congress cannot be predicted in any detail at this point, it is not hard to envisage some developments which, while still endorsing the policy of the center-left experiment, would make it considerably more

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difficult to put into effect. Nenni's negotiations with the CD would be much more difficult, for example, if the congress were to set unexpectedly stiff terms for the government's legislative program, or called for immediate PSI participation in the cabinet, or if the vote by which such a resolution carried revealed the autonomist majority to be precariously thin. Similarly, a bitter floor fight might cause a seriously large number of left-wing defections, and might well leave Nenni too exhausted physically to exercise a stabilizing influence within the new government.

The Communists

The Communists, who are acutely aware that the center-left experiment is aimed at undercutting their position, are still riding the wave of confidence generated by their April electoral gains and appear ready to accept a new challenge at the polls. They probably know that the Socialists are in poor shape to fight another election now. Their principal objective, of course, is to prevent the October PSI congress from arriving at a clear mandate to go forward with a center-left coalition. Communists can be expected to try to exploit any strains in Socialist - Christian Democratic relations at the national level and the local level. Socialists at present collaborate with the Christian Democrats in governing most of Italy's major cities.

The April election demonstrated the Communists' ability to survive boom conditions and even turn these to their own advantage by stressing the inequities in the distribution of the new prosperity. Subsequent developments have given them further opportunities, since the inflationary pace has continued to quicken and the growing shortage of skilled labor has set the stage for new wage demands. The party is already organizing widespread rallies to protest the rising cost of living; and through its control of the largest labor organization--the Italian General Confederation of Labor (CGIL) to which the Socialists also belong--it is in an advantageous position to press Socialist workers to join the Communists in such agitation.



PALMIRO TOGLIATTI
Communist Party
Secretary General

The PCI, like some other Western European Communist parties, has a vocal "pro-Chinese" faction. The rebel faction has attracted some support among Communist youth and is rumored planning to hold a congress this autumn. Party secretary Togliatti and his deputy are, however, expected to take disciplinary measures against this faction and are probably in a position to do so effectively, in view of the steady electoral gains made by the party as a result of hewing to Togliatti's moderate line.

Outlook

The stalemate in Italian politics could have consequences going beyond the present difficulties and threatening stability over the long run. In certain circumstances the differences between the CD and the Socialists could harden to the point where a rapprochement--which a majority of both parties probably desires --becomes impossible. If over the next few months the Communists should succeed in enticing the Socialists to collaborate in demonstrations and strikes, the role of the pro-Communist faction in the PSI might be strengthened and the suspicions in the CD Party toward the Socialists increased. Communist interest in such demonstrations would increase if the Communists believe a CD-PSI rapprochement likely. In these circumstances Nenni's ability to guide the Socialist congress in October back into collaboration with the CDs would be imperiled. By the same token, if the CDs should move toward

the right--say by forming a coalition which included the Liberals, the neo-Fascists, or both--Nenni would be put under strong pressure to return to opposition.

We doubt that the PSI could stand in opposition very long without losing much of its membership to the Communists. If a heavy drain on PSI support began, not only would the attempt to join the two strongest forces in Italian political life--the Catholic and the Socialist--in a reform movement be undermined, but the long effort to isolate and reduce the strength of the Communists would fail. The polarization of Italian political forces would then accelerate dangerously.

We believe, however, that despite mutual suspicions a majority of the present leadership in both the CD and PSI is well aware of these dangers. Moreover, many leaders in both parties are deeply committed to the center-left concept; for certain of them it would be political suicide to repudiate the "experiment." At the same time, the risks of collaboration are understood by both parties. The Socialists face an inevitable watering down of what is left of their traditional Marxist policies and rhetoric. For its part, the CD will have to soften resistance within the party to changes in the economic status quo, as well as on such questions as education and the proposed regional administrations. These are delicate considerations for all those involved, and will

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demand a considerable spirit of give and take.

Even if a center-left government is eventually established, serious problems will remain. Any such government would necessarily operate in a difficult atmosphere and probably under very short rein. Hostile critics in both the major parties would be quick to charge failure and to urge their chiefs to abandon the "experiment" once and for all. In these circumstances the government would find it difficult to implement the social and structural reforms the center-left was devised to undertake. Furthermore, even the most harmonious of governments could not enact a reform program whose results would be felt by the average Italian in short order.

In certain circumstances difficulties for US interests in Italy could arise with a center-left government in office. Nenni's ability to survive the grueling tasks he has laid out for himself in the months ahead is an important consideration. If he were to leave the scene in the near future--say, a few weeks after a center-left cabinet had taken office--there is a fair chance that autonomist strength within the PSI would erode, since his following is significantly based on personal loyalty. In any event, a considerable and perhaps disruptive contest for leadership of the

PSI would probably ensue. In such circumstances the depth of the party's dedication to Western foreign policy objectives might be put to a harsh test.

Assuming a reasonably coherent coalition and a healthy Nenni, a new center-left government is not likely to differ significantly in foreign relations and in foreign economic policy from the recent Fanfani government. Like all recent Italian governments, it will reflect the Italian public's growing desire to see Rome assume a more important place on the international scene. It would probably take a somewhat more independent stance than past governments on East-West relations and might be less inclined to go along with such imperatives as increases in defense budgets. Given a stable parliamentary base, however, and with elections behind it, it is likely to display somewhat less nervousness than the Fanfani government did on certain immediate matters such as the removal of the Jupiter missiles. The alternatives to a center-left government in the present parliament would be either of a weak caretaker nature such as the Leone government, or of a stand-pat nature such as the new quadripartite coalition. Such governments might be more vocal in their profession of pro-American sentiment, but less stable and hence likely to be less capable of turning promise into effective performance. (CONFIDENTIAL NO FOREIGN DISSEM)

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ANNEX

The State of the Italian Economy

While the Italian economy has shown unprecedented developments--Italy's economic "miracle"--during the postwar period, there continue to be serious problems regarding the distribution of the "miracle's" benefits. Deep social and geographic inequalities remain. Rough estimates indicate that more than 50 percent of the nation's income is going to the top 10 percent of the income units, as compared with 29 percent in the United States. This income distribution has led to high levels of investment, about 23 percent of gross national product, thus rapidly increasing industrial production and employment. Despite the expenditure of huge sums, less-developed regions continue to have a standard of living comparable to rural Iberia, while North Italian cities compare well with prosperous northern Europe. Some specific indications of this may be seen in the table below. More recently, the boom prosperity has developed its own problems, such as inflationary tendencies, concurrent wage demands, and a deterioration of the balance of payments.

INDICATIONS OF REGIONAL LIVING-STANDARD DISPARITY IN ITALY*

ITEM	NORTH	SOUTH	ALL ITALY
Per Capita Income (1951)	\$369	\$177	\$346
" " " (1959)	\$713	\$275	\$597
Eight-Year Growth in Per Capita Income	\$344	\$98	\$251
Per Capita Consumption of Meat (1957/58)	22 Kg.	11 Kg.	--
Percent of Population Living in Dwellings With More Than Two People Per Room**	19%	53%	31%
Percent of Population Illiterate**	6%	24%	13%

*Income figures are in current prices. However, the increase in prices between 1951 and 1959 was less than 15%.

**Based on 1951 census.

Source: Vera Lutz, Italy: A Study in Economic Development (London: Oxford University Press, 1962).

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January's cost-of-living index was 8 percent above that of January 1962, registering the highest price increase in Italy in any postwar year. The February figure, which was 2 percent above January, indicates a quickening inflationary pace, reflecting the pressures of full employment (in skilled and semiskilled areas), strong consumer demand, and a lag of new industrial capacity behind demand. Rising money incomes continue to keep consumer demand, the economy's bellwether, at boom level, and further inflationary pressures are exerted by a budget deficit of 15 percent of revenues, a rising money supply, and stringency in the labor market (skilled and semiskilled).

This developing shortage of skilled labor together with the cost-of-living increases give labor much fuel for its higher wage demands. A recent labor contract in the metals and machinery industries, which increased labor costs an estimated 20 to 30 percent, will probably serve as a pattern for future labor-management wage settlements. So far, the government's anti-inflationary measures have centered around increasing imports, particularly of consumer goods important to the cost of living, to take the pressure off domestic supplies. These measures, however, coupled with the normal import demand created by a booming economy, have caused a deterioration in Italy's balance of payments. This year's first-quarter deficit is expected to be more than double the normal first-quarter deficit.

Present indications are that, at least during the next several months, Italy will continue to enjoy a rapid pace of economic activity based on rising personal income which encourages consumer goods production, substantial investment by state-owned industries, and a continued high level of government expenditures for public works and development programs. Uncertainties about the future center around what the government will do to relieve inflationary pressures, and the effects such measures will have on investment decisions and on the profit picture in various sectors of the economy. If the attempt is made to relieve pressures on domestic supplies by dampening domestic demand rather than by increasing imports, pressure will be taken off the balance of payments. However, this could call for a stronger government stand against wage increases than would be politically expedient for any Italian government, especially a center-left government. ~~(CONFIDENTIAL NO FOREIGN DISSEM)~~

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